

Duchesne City  
Financial Statements  
Year ending June 30, 2005

## Table of Contents

Table of Contents .....	2
Independent Auditors' Report.....	4
Management's Discussion and Analysis.....	5
Government-wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities .....	11
Reconciliations:	
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	13
Fund Financial Statements:	
Balance Sheet—Governmental Funds.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	
Governmental Funds .....	15
Budget and Actual—General Fund.....	16
Statement of Net Assets—Proprietary Funds .....	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets—Proprietary Funds .....	18
Statement of Cash Flows—Proprietary Funds .....	19
Notes to Financial Statement .....	20
Compliance and Management Section:	
Compliance and Control (Yellow Book) Report.....	31
Utah State Compliance Report .....	32
Compliance Findings and Reportable Conditions .....	33

**Financial Section**

## **Independent Auditors' Report**

Duchesne City  
Duchesne, Utah

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, aggregate remaining fund information, and budgetary comparison information of Duchesne City as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Duchesne City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, aggregate remaining fund information, and budgetary comparison information of Duchesne City as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2006 on our consideration of the Duchesne City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the schedule of infrastructure, see Table of Contents for page numbers, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

**Aycock, Miles & Associates, CPAs**

January 12, 2006

## Management's Discussion and Analysis

As management of Duchesne City (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended June 30, 2005.

### Financial Highlights

- Assets exceeded liabilities at closest year-end:  $\$5,008,733 - \$1,241,971 = \$3,766,762$ . Of this amount, \$450,594 is unrestricted and available to meet the City's ongoing obligations.
- The City had \$1,050,306 in long-term obligations at the closest year-end, a decrease of \$69,750.
- Fixed assets net of accumulated depreciation increased \$179,894 largely due to construction of the swimming pool and concession stand, along with other current construction projects.
- Net assets increased by \$48,670 from the prior year.
- The City's total assets of \$5,008,733 were 13% unrestricted cash and receivables.
- Current assets exceed current liabilities at closest year-end:  $\$679,665 - \$253,070 = \$426,595$ .
- All liabilities exceed current assets at closest year-end:  $\$1,241,971 - \$679,665 = \$562,306$ .

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements**—The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activity of the City is general administration, roads, recreation and fire department. The City's business-type activities include a utility fund.

Government-wide financial statements can be found later in this report, see the Table of Contents for page numbers.

**Fund financial statements**—A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

***Governmental funds***—Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of the revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund. The City considers all governmental funds to be major funds.

The City adopts an annual appropriated budget for all its funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found later in this report, see the Table of Contents for page numbers.

***Proprietary funds***— Of the two types of proprietary funds, enterprise and internal service funds, the City maintains one individual enterprise funds—a utility fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the governmental fund balance sheet and the proprietary fund statement of revenues, expenditures, and changes in net assets for these three proprietary funds. The City considers all proprietary funds to be major funds.

The proprietary fund financial statements can be found later in this report, see the Table of Contents for page numbers.

**Notes to the financial statements**—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are reported later in this report please see the Table of Contents for page numbers.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$3,766,762 at the close of the most recent fiscal year.

The largest portion of the City's net assets was capital assets. Unrestricted net assets accounted for 12% of the City's total net assets. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Restricted assets (funds restricted for roads and debt reserves, etc.) comprised 1%. Capital assets comprised 87% of total net assets, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate any liabilities.

<b>Net Assets</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2005	2004	2005	2004
Current and other assets	239,349	385,282	\$ 440,316	\$ 453,933
Net capital assets	<u>1,905,789</u>	<u>1,642,189</u>	<u>2,423,279</u>	<u>2,506,987</u>
Total assets	2,145,138	2,027,471	2,863,595	2,960,920
Current liabilities	178,747	137,352	74,324	82,524
Long-term liabilities	<u>508,000</u>	<u>532,000</u>	<u>480,900</u>	<u>518,422</u>
Total liabilities	<u>686,747</u>	<u>669,352</u>	<u>555,224</u>	<u>600,947</u>
Net assets:				
Capital assets, net of related debt	1,373,789	1,077,739	1,904,973	1,951,380
Restricted	-	232,874	37,406	37,184
Unrestricted	<u>84,602</u>	<u>47,506</u>	<u>365,992</u>	<u>371,409</u>
Total net assets	<u>\$ 1,458,391</u>	<u>\$ 1,358,119</u>	<u>\$ 2,308,371</u>	<u>\$ 2,359,973</u>

Capital projects are, for the most part, fully funded by grants and loans, City participation, and property tax revenues which exceed remaining operating and administration expenses.

**Government activities**— Key elements of the governmental activities and business-type activities are as follows.

<b>Change in Net Assets</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2005	2004	2005	2004
<b>Program revenues:</b>				
Charges for services	\$ 68,847	\$ 103,873	\$ 504,069	\$ 445,395
Operating grants	69,847	-	6,380	6,000
Capital grants	147,966	447,641	68,676	-
<b>General revenues:</b>				
Property taxes	94,332	87,878	-	-
Sales tax	206,296	217,770	-	-
Other taxes	81,932	118,504	-	-
Miscellaneous revenues	11,298	13,933	-	7,050
Transfers	190,000	-	-	-
Loss on asset retirement	(41,103)	-	-	-
Earnings on investments	<u>6,472</u>	<u>6,317</u>	<u>1,539</u>	<u>1,887</u>
Total revenues	835,887	995,916	580,664	460,332
<b>Expenses:</b>				
General government	128,439	135,375	-	-
Public safety	179,201	183,032	-	-
Streets and roads	256,820	215,731	-	-
Parks, culture, and recreation	171,155	162,441	-	-
Water	-	-	220,649	223,862
Transfers	-	-	190,000	-
Sewer	-	-	111,902	99,102
Other non-allocated (i.e. garbage)	-	-	109,715	95,164
Total expenses	<u>735,615</u>	<u>696,579</u>	<u>632,266</u>	<u>418,128</u>
Increase in net assets	<u>\$ 100,272</u>	<u>\$ 299,337</u>	<u>\$ (51,602)</u>	<u>\$ 42,204</u>

Operating and capital grants will vary year to year based on project funding. Administration expenses remained relatively consistent. Public safety, streets and roads, and parks, culture and recreation vary from year to year depending on various projects.

### **Financial Analysis of the Government's Funds**

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are two types of funds: governmental funds and proprietary funds.

**Governmental funds**—The focus of the City's governmental funds is to provide information on near-term flows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$81,485, a decrease of \$195,952 in comparison with the prior year. This total fund balance amount is \$0 reserved and \$81,485 unreserved. Unreserved fund balances are available for spending at the government's discretion.

At the most recent fiscal year end, the fund balance of the general fund was \$87,348, an increase of \$33,709; and the capital projects fund was \$(5,863), a decrease of \$229,661 due to completion of a swimming pool and other projects.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, reserved fund balance of the general fund was \$0 and unreserved fund balance was \$87,348. As a measure of the general fund's liquidity, it may be useful to compare unreserved general fund balance to total fund expenditures. Unreserved fund balance represents about 13% of total general fund expenditures excluding capital outlay.

**Proprietary funds**—The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The balance of net assets of the utility fund consisted of unrestricted net assets of \$365,992, restricted of \$37,406, and capital assets, net of related debt, of \$1,904,973. The utility fund's net assets decreased \$51,602 due to a \$160,000 transfer to the general fund. Other factors concerning the finances of this proprietary fund have already been addressed in the discussion of the City's business-type activities.

### **Fund Budgetary Highlights**

Amendments may be made to the funds' original budgets to more accurately reflect the expected expenses and revenue as the year progresses. The City did amend their budget this year. The City exceeded its budget in the administrative department by \$1,795.

### **Capital Asset and Debt Administration**

**Capital assets**—As of June 30, 2005, the City's investment in capital assets for its governmental activities amounts to \$1,905,789 (net of accumulated depreciation) and \$2,423,280 (net of accumulated depreciation) for its proprietary activities. These capital assets are land, land improvements, buildings, transportation equipment, office equipment, and utility systems. Net capital assets of governmental activities increased \$263,600 because construction projects exceeded depreciation. Proprietary activities decreased \$83,707 also because depreciation exceeded asset purchases.



<u>Net Capital Assets</u>	<u>Governmental Activities</u>		<u>Business-type activities</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land and land improvements	\$ 39,040	\$ 39,040	\$ 17,705	\$ 17,705
Buildings & equipment, net	<u>1,866,749</u>	<u>1,603,149</u>	<u>2,405,575</u>	<u>2,489,282</u>
Total capital assets, net	<u>\$ 1,905,789</u>	<u>\$ 1,642,189</u>	<u>\$ 2,423,280</u>	<u>\$ 2,506,987</u>

**Long-term debt**—The City had long-term debt activity for the following notes payable during the year.

	<u>2005</u>	<u>2004</u>
<b>Governmental Funds:</b>		
1999 Main Street Bond	\$ 342,000	\$ 356,000
Swimming Pool Revenue Bond	190,000	200,000
2001 Park Tractor	-	8,450
Total Principle Outstanding	532,000	564,450
Less: Current Portion	<u>(24,000)</u>	<u>(32,450)</u>
Total Long-term Debt	508,000	532,000
 <b>Enterprise Funds:</b>		
1968 Sewer Revenue	7,366	10,565
1988 Water Pollution Control	45,407	56,508
Div of Drinking Water Revenue Bond	<u>465,534</u>	<u>488,534</u>
Total Principle Outstanding	518,307	555,607
Less: Current Portion	<u>(37,406)</u>	<u>(37,184)</u>
Total Long-term Debt	<u>480,901</u>	<u>518,423</u>
Total Long-term Debt, All Funds	<u>\$ 988,901</u>	<u>\$ 1,050,423</u>

#### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year is relatively similar to the most recent year's actual expenses. No changes in budgeted tax revenues have been made for the next fiscal year. The tax rates are set to reach the same budgeted revenues.

#### **Infrastructure Assets**

The City has elected to depreciate its infrastructure over a 40 year period, generally.

#### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's clerk at (435) 738-2464

Duchesne City  
**STATEMENT OF NET ASSETS**  
*June 30, 2005*

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 28,650	\$ 355,873	\$ 384,523
Accounts receivable--property taxes	73,624	-	73,624
Accounts receivable--other, net of allowance	14,974	47,037	62,011
Prepaid assets	-	-	-
Other assets	47,220	-	47,220
Intergovernmental receivable	50,881	-	50,881
Cash restricted, sinking and reserve funds	24,000	37,406	61,406
Total Current Assets	239,349	440,316	679,665
Capital assets:			
Infrastructure & land	39,040	17,705	56,745
Buildings & equipment, net of accum. depreciation	1,866,749	2,405,575	4,272,324
Total Non Current Assets	1,905,789	2,423,279	4,329,068
Total Assets	<u>\$ 2,145,138</u>	<u>\$ 2,863,595</u>	<u>\$ 5,008,733</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Cash deficit	\$ -	\$ -	\$ -
Accounts payable	74,074	19,806	93,880
Accrued expenses	12,933	11,313	24,246
Deferred revenue & customer deposits	-	5,799	5,799
Deferred property tax revenue	67,740	-	67,740
Current portion note payable	24,000	37,406	61,406
Total Current Liabilities	178,747	74,324	253,070
Non Current Liabilities:			
General obligation & revenue bonds	508,000	480,900	988,900
Total Non Current Liabilities	508,000	480,900	988,900
Total Liabilities	686,747	555,224	1,241,971
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,373,789	1,904,973	3,278,762
Restricted (roads, capital projects, debt service reserve )	-	37,406	37,406
Unrestricted	84,602	365,992	450,594
Total Net Assets	1,458,391	2,308,371	3,766,762
Total Liabilities & Net Asset Balances	<u>\$ 2,145,138</u>	<u>\$ 2,863,595</u>	<u>\$ 5,008,733</u>

Duchesne City  
**STATEMENT OF ACTIVITIES**  
*For the year ending June 30, 2005*

Functions	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants & Contributions	Total		Total
			Capital Grants & Contributions	Governmental Activities	
<b>Governmental Activities:</b>					
General government	\$ 128,439	\$ -	\$ -	\$ (111,367)	\$ (111,367)
Public safety	179,201	1,951	25,825	(148,363)	(148,363)
Streets, roads and airport	256,820	67,896	102,141	(82,829)	(82,829)
Parks, culture and recreation	171,155	-	20,000	(106,396)	(106,396)
Total Governmental Activities	735,615	69,847	147,966	(448,955)	(448,955)
<b>Business-type Activities:</b>					
Water	220,649	6,380	68,676	-	166,307
Sewer	111,903	-	-	-	(13,868)
Other non-allocated (i.e. garbage)	109,715	-	-	-	(15,580)
Total Utility	442,266	6,380	68,676	-	136,859
Total Business-type Activities	442,266	6,380	68,676	-	136,859
Total Primary Government	\$ 1,177,881	\$ 76,227	\$ 216,642	(448,955)	(312,096)
<b>General Revenues:</b>					
Property taxes				94,332	94,332
Sales tax				206,296	206,296
Other Taxes				81,932	81,932
Miscellaneous revenues				11,298	11,298
Earnings on investments				6,472	1,539
Special item--loss on retirement of pool				(41,103)	(41,103)
Transfers				190,000	(190,000)
Total General Revenues				549,227	360,766
<b>Change in Net Assets</b>					
				100,272	48,670
Beginning Net Assets				1,358,119	2,359,973
Ending Net Assets				\$ 1,458,391	\$ 2,308,371
					\$ 3,766,762

See accompanying notes. Page 11

Duchesne City  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**  
*June 30, 2005*

**Total Fund Balances for Governmental Funds** **\$ 81,485**

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of the following:

Infrastructure	39,040	
Land, buildings, and equipment	4,579,888	
Accumulated depreciation	<u>(2,713,139)</u>	
		1,905,789

Long-term debt, for funds other than enterprise funds, are recorded in the government-wide financial statements but not in the fund statements. (532,000)

Interest accrued but not yet paid on long term debt. (1,710)

Deferred property tax revenue includes delinquent property taxes in the fund statements but not in the government-wide statements. 4,827

**Total Net Assets of Governmental Activities** **\$ 1,458,391**

**Duchesne City**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
*June 30, 2005*

**Net Change in Fund Balances--Total Governmental Funds** **\$ (195,952)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with a material cost are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expenses.

Capital outlays	401,866	
Retirement of assets, book value loss	(41,103)	
Depreciation	<u>(97,161)</u>	
Net		263,602

Government funds do not report delinquent taxes as revenue because these revenues are not available for current period expenses.		(107)
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Interest accrued but not yet paid on long term debt.		279
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Governmental funds report debt services as an expenditure. However, repayment of debt does not affect the statement of activities but rather is a reduction of the statement of net assets' liability.

Principal payments	32,450	
Loan proceeds	<u>-</u>	
		<u>32,450</u>

<b>Change in Net Assets of Governmental Activities</b>		<b><u>\$ 100,272</u></b>
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Duchesne City  
**BALANCE SHEET--GOVERNMENTAL FUNDS**  
June 30, 2005

	Governmental Funds		Total
	General Fund	Capital Projects Fund	
<b>Assets</b>			
Cash	\$ 52,387	(23,738)	\$ 28,650
Accounts receivable--property taxes	1,057	-	1,057
Accounts receivable--other	14,974	-	14,974
A/R - property tax deferred	67,740	-	67,740
Due from other governments	50,881	-	50,881
Prepaid assets	-	-	-
Other assets	-	47,220	47,220
Restricted cash/Restricted cash offset	24,000	-	24,000
<b>Total Assets</b>	<b>\$ 211,039</b>	<b>23,482</b>	<b>\$ 234,521</b>
<b>Liabilities</b>			
Accounts payable	\$ 44,729	29,345	\$ 74,074
Accrued payroll liabilities	11,223	-	11,223
Deferred revenue & customer deposits	-	-	-
Deferred property tax revenue	67,740	-	67,740
<b>Total Liabilities</b>	<b>123,691</b>	<b>29,345</b>	<b>153,037</b>
<b>Fund Balances</b>			
Fund Balances:			
Reserved for capital projects	-	-	-
Reserved for C roads	-	-	-
Unreserved	87,348	(5,863)	81,485
<b>Total Fund Balances</b>	<b>87,348</b>	<b>(5,863)</b>	<b>81,485</b>
<b>Total Liabilities &amp; Fund Balances</b>	<b>\$ 211,039</b>	<b>23,482</b>	<b>\$ 234,521</b>

Duchesne City  
**STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS**  
 Years Ending June 30, 2005

	General Fund	Capital Projects Fund	Total
<b>Revenues</b>			
Taxes	\$ 382,667	\$ -	\$ 382,667
Licenses and permits	17,072	-	17,072
Charges for services	49,908	1,867	51,775
Intergovernmental	95,672	122,141	217,813
Royalties and interest	6,231	240	6,472
Miscellaneous revenues	11,298	-	11,298
Total Operating Revenue	562,849	124,248	687,097
<b>Expenditures</b>			
General government	127,785	-	127,785
Public safety	175,948	-	175,948
Streets, roads and airport	175,792	-	175,792
Parks, culture and recreation	151,708	-	151,708
Capital outlay	17,957	383,909	401,866
Debt Service:			
Principal	32,450	-	32,450
Interest	7,500	-	7,500
Total Operating Expenditures	689,140	383,909	1,073,049
Excess (Deficiency) of Revenues Over (Under) Expenditures	(126,291)	(259,661)	(385,952)
<b>Other Financing Sources and (Uses)</b>			
Loan proceeds	-	-	-
Operating transfers in (out)	160,000	30,000	190,000
Total Other Financing Sources and (Uses)	160,000	30,000	190,000
<b>Net Change in Fund Balances</b>	<b>33,709</b>	<b>(229,661)</b>	<b>(195,952)</b>
Fund Balances--Beginning of Year	53,639	223,798	277,437
Fund Balances--End of Year	\$ 87,348	\$ (5,863)	\$ 81,485

Duchesne City  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES--BUDGET AND ACTUAL--GENERAL FUND**  
Year Ending June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 391,500	\$ 338,010	\$ 382,667	\$ 44,657
Licenses and permits	33,000	16,000	17,072	1,072
Charges for services	93,200	54,980	49,908	(5,072)
Intergovernmental	195,800	97,000	95,672	(1,328)
Royalties and interest	5,000	6,000	6,231	231
Miscellaneous revenues	13,000	14,500	11,298	(3,202)
Total Operating Revenue	731,500	526,490	562,849	36,359
<b>Expenditures</b>				
General government	126,250	125,990	127,785	(1,795)
Public safety	187,850	177,580	175,948	1,632
Streets and roads	200,800	178,400	175,792	2,608
Parks, culture, and recreation	195,480	165,020	158,235	6,785
Capital outlay	-	-	11,430	(11,430)
Debt Service:				
Principal	-	-	32,450	(32,450)
Interest	-	-	7,500	(7,500)
Total Operating Expenditures	710,380	646,990	689,140	(42,150)
Excess of Revenues Over (Under) Operating Expenditures	21,120	(120,500)	(126,291)	(5,791)
<b>Other Financing Sources and (Uses)</b>				
Loan proceeds	-	-	-	-
Operating transfers in (out)	-	160,000	160,000	-
Total Other Financing Sources and (Uses)	-	160,000	160,000	-
<b>Net Change in Fund Balances</b>	<b>21,120</b>	<b>39,500</b>	<b>33,709</b>	<b>(5,791)</b>
Fund Balances--Beginning of Year	53,639	53,639	53,639	-
Fund Balances--End of Year	<u>\$ 74,759</u>	<u>\$ 93,139</u>	<u>\$ 87,348</u>	<u>\$ (5,791)</u>



Duchesne City  
**STATEMENT OF NET ASSETS--PROPRIETARY FUNDS**  
June 30, 2005

	Business-type Activities-- Enterprise Funds <u>Utility</u>
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 355,873
Inventory	-
Intergovernmental receivable	-
Accounts receivable, customers	54,632
Allowance for doubtful accounts receivable	(7,596)
Miscellaneous current assets	-
Cash restricted, sinking and reserve funds	<u>37,406</u>
Total Current Assets	440,316
Non Current Assets:	
Capital assets:	
Land	17,705
Buildings, equipment, & construction in process	17,103
Water System	2,559,221
Sewer System	1,158,298
Accumulated depreciation	<u>(1,329,047)</u>
Total Non Current Assets	2,423,279
Total Assets	<u>\$ 2,863,595</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Cash deficit	\$ -
Accounts payable	19,806
Deferred revenue & customer deposits	5,799
Accrued expenses	11,313
Current portion note payable	<u>37,406</u>
Total Current Liabilities	74,324
Non Current Liabilities:	
Bonds payable	<u>480,900</u>
Total Non Current Liabilities	480,900
Total Liabilities	555,224
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,904,973
Restricted	37,406
Unrestricted	<u>365,992</u>
Total Net Assets	2,308,371
Total Liabilities & Net Asset Balances	<u>\$ 2,863,595</u>

Duchesne City  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
Year Ending June 30, 2005

	<u>Proprietary Funds</u>
	<u>Utility</u>
<b>Operating Revenues</b>	
Charges for services	\$ 504,069
Miscellaneous	6,380
Total operating revenues	<u>510,449</u>
<b>Operating Expenses</b>	
Wages and benefits	135,001
Office expenses	27,182
Repairs, maintenance, & supplies	10,359
Utilities	2,603
Water purchases	26,344
Depreciation	100,810
Travel	-
Education & training	-
Insurance	-
Garbage pickup	74,635
Telephone	1,792
Interest expense	12,258
Administrative and general	27,853
Other	23,430
Total operating expenses	<u>442,266</u>
Operating income (loss)	68,183
<b>Non-Operating Revenue (Expenses)</b>	
Grants	68,676
Transfers in or out	(190,000)
Gain/(Loss) on the sell of assets	-
Interest and royalties revenue	1,539
Total non-operating revenue (expense)	<u>(119,785)</u>
<b>Net Income (Loss) before Transfers</b>	<b>(51,602)</b>
Retained earnings-beginning	<u>2,359,973</u>
Retained earnings-ending	<u>\$ 2,308,371</u>

Duchesne City  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
Year Ending June 30, 2005

	<u>Proprietary Funds</u>
	<u>Utility</u>
<b>Cash Flows from Operations</b>	
Receipts from services	\$ 498,322
Receipts from miscellaneous sources	6,380
Paid for labor and wages	(132,639)
Bond interest payments	(12,628)
Paid for supplies and services	<u>(205,295)</u>
Net Cash Flows	154,140
<b>Cash Flows from Noncapital Financing</b>	
Transfers	(190,000)
Donations	<u>-</u>
Net Cash Flows	(190,000)
<b>Cash Flows from Capital &amp; Related Financing</b>	
Acquisition of assets	(17,104)
Principal payments--revenue bonds	(37,300)
Loan proceeds	-
Sale of assets	-
Capital grants received	<u>68,676</u>
Net Cash Flows	14,272
<b>Cash Flows from Investing Activities</b>	
Received from interest and royalties	<u>1,539</u>
Net Cash Flows	<u>1,539</u>
<b>Net Increase (Decrease) in Cash</b>	<b>(20,049)</b>
Cash Balances -- Beginning of Year	<u>413,328</u>
Cash Balances -- End of Year	<u><b>\$ 393,279</b></u>
<b>Reconciliation of Operating Income</b>	
<b>to Net Cash Provided from Operating Activity</b>	
Operating income (loss)	\$ 68,183
Operating items not involving cash:	
Depreciation	100,810
(Increase) decrease in accounts receivable	(6,431)
(Increase) decrease in inventory	-
Increase (decrease) in payables, etc.	(11,098)
Increase (decrease) in accrued expenses, etc.	1,992
Increase (decrease) in deferred revenues	<u>684</u>
Net Cash Flow	<u><b>\$ 154,140</b></u>

See accompanying notes. Page 19

Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2005*

**Note 1 Summary of Significant Accounting Policies**

**Reporting Entity**—The accounting policies of Duchesne City conform to generally accepted accounting principles as applicable to governmental units. For financial reporting purposes, the City has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and the (1) ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. The City has no component units and is not a component unit. The following is a summary of the more significant policies:

**Government-Wide and Fund Financial Statements**—The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent of fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated. All expenses are included in the applicable function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**—The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2005*

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* is the government's fund to account for capital projects and overhead that can be submitted to grantors for reimbursement.

The City reports the following major proprietary fund:

The *utility fund* is used to account for the activities regarding culinary water distribution, the operations of the sewer system, and the collection and disposal of garbage.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Indirect charges are not allocated to their various functions because the City maintains a general administration function to capture indirect costs.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary fund is service charges to customers for sales or service. The City also recognizes as revenue the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

**Application of Accounting Pronouncements**—Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**Deposits and Investments**—The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**Receivables and Payables**—All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectible amounts. Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances from/to other funds" (i.e., the non-current portion of interfund loans). Advances between funds, as

Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2005*

reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**Property Taxes**—The property tax revenue of the City is collected and distributed by Duchesne County. Utah statutes establish the process by which taxes are levied and collected. The County Assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the County Auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The County Auditor makes approved changes in assessed value by November 1 and on this same date the County Auditor is to deliver the completed assessment rolls to the County Treasurer. Tax notices are mailed with a due date of November 30. The tax assessments are considered past due January 15 after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

Utah State legislation requires motor vehicles be subject to an age based fee that is due each time a vehicle is registered. The age based fee is for passenger type vehicles and ranges from \$10 to \$150 based on the age of the vehicle. The revenues collected in each County from motor vehicle fees is distributed by the County to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The City recognizes motor vehicle fees as property tax revenue when collected by the County.

As of June 30, 2004, property taxes receivable by the City includes uncollected taxes assessed as of the January 1, 2004 or earlier. The County expects that all taxes (including delinquencies plus accrued interest and penalties) will be collected within a five-year period, after which time the County Treasurer may force sale of property to collect the delinquent portion. Delinquent property tax receivable is recognized as revenue in the government-wide financial statements. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

**Inventories and Prepaid Items**—All inventories are valued at cost using the first-in/first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets**—At times, the City may have funds set aside that are legally restricted or their use is limited by certain covenants. Restricted resources are applied first when eligible expenses are incurred.

**Capital Assets**—Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure is depreciated

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2005*

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water and sewer mains	50
Water and sewer structures	40
Buildings and Improvements	40
Infrastructure	40
Fire trucks	25
Transportation and power operated equipment	12
Machinery and equipment	10
Office furniture	7
Office equipment	5
Computer equipment	3

**Compensated Absences**—The government's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated sick leave because the government does have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations, retirements or certain limits.

**Long-term Obligations**—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications**—Comparative total data for the prior year, if presented, have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**Use of Estimates**—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2005*

**Budgetary Data**—Budgets are presented on the modified accrual basis of accounting for all governmental funds of the City. The following procedures are used in establishing the budgetary data:

- Towards the end of each fiscal year, the council prepares the budget for all applicable funds.
- Copies of the budget are made available for public inspection for seven days prior to adoption.
- The Board holds a public hearing on or before June 22 of each year to receive public comment on the budget. Notice of such meeting to be published in newspaper or posted 2 weeks prior to hearing.
- By June 22, the proposed tax rate and budget is adopted by resolution or ordinance. If there is no increase in the certified tax rate, a final budget is adopted by June 22. A copy of the budget is certified by the budget officer and filed with County Auditor within thirty days of adoption.
- The proposed or final tax rate must also be submitted to the County Auditor by June 22. If the City sets a proposed tax rate which exceeds the certified tax rate, it shall not adopt its final budget until the public hearing has been held. Until the hearing is held and a final budget and tax rate are adopted, the City may expend monies based on, 1) its tentative budget after adoption, or 2) its prior year's adopted final budget as amended, which must be readopted by resolution at a regular meeting of the governing body. Latest possible date for adoption in the case of an increased tax rate is August 17 (copy due to the County Auditor within thirty days of adoption). Budgeted property taxes are the basis for determining the property tax levy.
- Budget shall be in effect subject to later amendment and shall be available for public inspection.
- Board may, by resolution, transfer unexpended appropriation from one department to another department within the same fund or they may reduce the budget in any department or fund. Specific restrictions apply.
- Board may increase the total budget in a fund after meeting notification and public hearing.



Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2005*

**Note 2 Capital Assets**

A summary of capital asset activity is listed below. These figures include the proprietary funds.

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
<b>Proprietary Funds:</b>				
Utility	\$ 3,735,222	\$ 17,105	\$ -	\$ 3,752,327
Sub-total	3,735,222	17,105	-	3,752,327
<b>Governmental Funds:</b>				
General government	27,526	-	-	27,526
Public safety	122,286	-	-	122,286
Streets and roads	3,184,255	168,317	-	3,352,572
Parks, culture and recreation	1,040,806	233,548	(157,810)	1,116,544
Sub-total	4,374,873	401,865	(157,810)	4,618,928
<b>Accumulated Depreciation:</b>				
Proprietary funds	(1,228,237)	(100,811)	-	(1,329,048)
Governmental funds	(2,732,684)	(97,161)	116,706	(2,713,139)
Sub-total	(3,960,921)	(197,972)	116,706	(4,042,187)
Net Totals	<u>\$ 4,149,174</u>	<u>\$ 220,998</u>	<u>\$ (41,104)</u>	<u>\$ 4,329,068</u>

Depreciation expense for the year ended June 30, 2005 was allocated to functions of the City's governmental activities and business-type activities as follows:

Governmental		Business-type	
General government	\$ 654	Water	\$ 71,845
Public safety	3,253	Sewer	28,965
Streets and roads	73,807	Garbage, non allocated	-
Parks, culture, and recreation	19,447	Total	<u>\$ 100,810</u>
Total	<u>\$ 97,161</u>		

Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2005*

**Note 3 Cash Deposits and Investments**

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Town follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Town funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**Summary of Deposits and Investments**

Reconciliation to the Balance Sheet			
Balance Sheet		Deposits & Investments	
Cash	\$ 384,523	Checking	\$ 151,035
Cash restricted, sinking funds	61,406	Utah Public Treasurer Pool	294,394
	-	Cash	500
Totals	<u>\$ 445,929</u>		<u>\$ 445,929</u>

**Deposits**

***Custodial Credit Risk***—Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2005, \$51,035 of the Town's bank balances of \$155,452 (carrying balance of \$151,035) was uninsured and uncollateralized.

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the Town and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Town to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United State Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses (net of administration fees), of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005, the Town had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	294,394	294,394	-	-	-

**Interest Rate Risk**—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years. For funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the Money Management Council does not allow the dollar-weighted average maturity of fixed income securities to exceed ten years.

**Credit Risk**—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

At June 30, 2005, the Town had the following investments and quality ratings:

Investment Type	Fair Value	Quality Rating			
		AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	294,394	-	-	-	294,394

**Concentration of Credit Risk**—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2005*

**Note 4 Long-term Obligations**

Changes in long-term obligations for Duchesne City are as follows:

<u>Long-term Obligations</u>	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>	<u>Current Portion</u>
<b><u>Governmental Funds</u></b>					
A--1999 Main Street Bond, due in annual installments of ranging from \$13,000 to \$20,000 through fiscal year 2025; interest at 2%	\$ 356,000	\$ -	\$ (14,000)	\$ 342,000	\$ 14,000
B--2001 Park Tractor Lease, due in annual installments of \$8,830 through fiscal year 2005; interest at 5%	8,450	-	(8,450)	-	-
C--Swim Pool Revenue Bond, due in annual installments of \$10,000 through fiscal year 2024; interest at 0%	200,000	-	(10,000)	190,000	10,000
Totals	564,450	-	(32,450)	532,000	24,000
<b><u>Business-type Funds</u></b>					
D--1968 Sewer Revenue, due in annual installments of \$2,083 through fiscal year 2014; interest at 4.125%	10,565	-	(3,199)	7,366	2,083
E--1988 Water Pollution Control(sewer), due in annual installments ranging from \$10,670 to \$11,781 through fiscal year 2009; interest at 2%	56,508	-	(11,101)	45,407	11,323
F--Div of Drinking Water Revenue Bond, due in annual installments ranging from \$23,000 to \$33,000, through fiscal year 2022; interest at 2.06%	488,534	-	(23,000)	465,534	24,000
Totals	555,607	-	(37,300)	518,307	37,406
Grand-total	\$ 1,120,057	\$ -	\$ (69,750)	\$ 1,050,307	\$ 61,406

The annual requirements to amortize all debt outstanding as of June 30, 2005 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 61,406	\$ 18,192	\$ 79,598
2007	62,633	17,105	79,738
2008	63,864	15,993	79,857
2009	63,986	14,854	78,840
2010	51,000	13,714	64,714
2011-15	273,000	55,466	328,466
2016-20	295,000	31,885	326,885
2021-25	179,418	8,021	187,439
Totals	\$ 1,050,307	\$ 175,230	\$ 1,225,537

Duchesne City  
**NOTES TO FINANCIAL STATEMENTS**  
*June 30, 2005*

**Note 5 Revenue Bond Reserve Funds**

Cash has been reserved for future debt service. These reserves are generally the highest annual payments for some of the notes payable. The City has reserved savings of \$61,406.

**Note 6 Exposures to Risks of Loss**

The City minimizes its exposure to risks of loss through the purchase of commercial insurance. The City considers uninsured exposure to risks of loss as immaterial.

**Note 7 Segment Information**

The City issued revenue bonds to finance its utility fund (water department). The water, and sewer, departments are accounted for in the Utility fund. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Segment information for the year ended June 30, 2005 is included in the financial statements.

**Note 8 Interest Expense**

Interest expenses have been included as direct function expenses in the Statement of Activities. The streets and road function of the general fund were charged \$7,500, the administrative function was charged \$0, and the utility fund was charged \$12,258.

**Note 9 Employer contributing to a Cost-sharing Multiple-Employer Defined Benefit Pension Plan**

**Plan Description.** The City contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System and Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy.** For July 2004 to June 2005, plan members in the Local Governmental Noncontributory Retirement System are required to contribute 0.00% of their annual coverage salary (0.00% is paid by the City for the employee) and the City is required to contribute 11.09% of their annual coverage salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

**Contributions.** The City's contributions to the Local Governmental Noncontributory Retirement System for the years ending June 30, 2005, 2004, and 2003 were as follows. The contributions were equal to the required contributions for each year.

Salary Subject to Retirement Contributions	Year Ended June 30	Employee Paid Contributions	Employer Paid for Employee Contributions	Employer Contributions
\$ 187,483	2005	n/a	n/a	\$ 20,792
\$ 176,821	2004	n/a	n/a	\$ 17,010
\$ 153,808	2003	n/a	n/a	\$ 13,365

The City does participate in a 401(k) plan. These assets are in the employees name and the City has no right to the 401(k) contributions. Employees last contributed \$0 in the fiscal year 2005.

#### Note 10 Capital Leases

The government has entered into a lease agreement as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The applicable capital lease below was completely paid during fiscal year 2005. The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Machinery and equipment	\$ 24,273	\$ -
Less: Accumulated depreciation	(7,282)	-
Total	<u>\$ 16,991</u>	<u>\$ -</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005 were 0\$ because the capital lease was completely paid by the end of the fiscal year.

## **Other Information**

**Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With Government Auditing Standards**

City Council  
Duchesne, Utah

We have audited the financial statements of Duchesne City as of and for the year ended June 30, 2004, and have issued our report thereon dated January 12, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards. This finding is located in the following schedule of compliance findings and reportable conditions as 05-01.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**Aycock, Miles & Associates, CPAs**

January 12, 2006



## Utah State Compliance Report

City Council  
Duchesne, Utah

We have audited the general purpose financial statements of Duchesne City, Utah, for the year ended June 30, 2005, and have issued our report thereon dated January 12, 2006. Our audit included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt  
Purchasing Requirements  
Property Tax

Cash Management  
Budgetary Compliance  
Other Compliance Requirements

As part of our audit, we have audited Duchesne City's compliance with the requirements governing types of services allowed or disallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the *State of Utah's Legal Compliance Audit Guide* for the year ended June 30, 2005. The City did not receive any major State assistance programs from the State of Utah.

The management of City of Duchesne is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed two instances of noncompliance. Please refer to the following schedule of compliance findings and reportable conditions 05-01.

In our opinion, the Duchesne City, Utah, complied, in all material respects, with the general and major compliance requirements identified above for the year ended June 30, 2005.

**Aycock, Miles & Associates, CPAs**

January 12, 2006

## **Compliance Findings and Reportable Conditions**

05-01 Compliance Finding

One department in the general fund was over budget which is a violation of Utah State law. This issue was also a finding in the prior year.

City Response

The Council will examine its budget, actual expenses, and payables toward the end of each year and revise the budget as needed.